

July 1974

SUBJECT: CIA Support for US Government Policy on East-West Trade Relations

The bulk of CIA support on East-West trade matters is provided by CIA's Office of Economic Research. The nature of the support ranges from the provision of statistics, to intelligence support in the trade control arena, to the writing of broad background papers on trade-related matters.

The direct recipients of the support include middle-level government officials concerned with East-West trade, cabinet members, Congressional staff members, and committees of the Congress. In all cases we have tried to provide facts and analyses based on our long-standing research on the economies of the USSR, Eastern Europe, and the PRC. A review of the principal topics and channels of CIA support since the beginning of 1972 will give a sound appreciation of the Agency's activities in providing intelligence support on East-West trade policy issues.

The Subject Matter

Soviet, East European, and Chinese trade statistics are incomplete and information on balances of payments is almost nonexistent. Therefore, the Office of Economic Research has spent a good deal of time in reconstruction of the trade and financial information that is necessary for policy discussions. In building up the trade accounts we have had to trace the international borrowing of Bloc countries, putting us in a position to assess the net indebtedness of these countries to the West. At the same time we have had to estimate Soviet gold production, using all available sources of intelligence, since the USSR's gold position is one of its most closely-guarded national secrets.

In addition to following the broad outlines of Bloc trade, we have paid particular attention in the past 2-1/2 years to trade in machinery, farm products, and oil. We attempt to identify all

major contracts for the purchase of Western equipment and follow them through completion. To the extent possible, we try to be informed about the progress of negotiations for the sale of Western machinery to the USSR, Eastern Europe, and China. This effort requires the research and accumulated experience of international trade specialists, country specialists, and experts in particular industrial sectors.

On the basis of continuing research on agricultural and consumption trends in Bloc countries, the Agency periodically assesses harvest prospects and compares them with domestic requirements. We then project international trade in grain and other agricultural products, taking into account our incomplete knowledge of domestic stocks and the intentions of Bloc leaders with regard to consumption levels.

The Agency has maintained a sustained effort on the petroleum industries of Bloc countries, analyzing trends in both trade and domestic consumption. In 1972 and 1973 we focused on the proposed long-term cooperative ventures involving Siberian oil and gas. Our particular concern was to derive cost and revenue schedules for the projects.

Aside from the research directly related to the substance of East-West trade, the Agency has been engaged during the past year in a study of the impact of detente-inspired trade and technology transfer on the Soviet economy. This work has focused on: (a) the present and future channels of technology transfer resulting from increased trade and bilateral scientific and technical cooperation, (b) the major Soviet priorities in this area, (c) the impact of technology transfer, and (d) the likely effects in the future.

We are continuing to refine our assessments of the importance of the economic-technical side of detente--for Eastern Europe and China as well as for the USSR. At the same time, we were asked this spring to extend the inquiry to cover the political aspects of East-West economic relations--the extent and durability of leadership commitment to these relations, the potential for the development of interest groups interested in preserving economic ties, and the deterioration in economic relations.

CIA also supports US policy makers in the trade controls area. We serve in an advisory capacity with the Advisory Committee on Export Policy (ACEP) and the Economic Defense Advisory Committee (EDAC). Upon request, we provide information to the other member agencies on (a) the activities of enterprises that are designated as end-users in requests for exceptions to export controls, (b) the state-of-the-art in the production of strategic commodities in Bloc and non-Bloc countries, and (c) illegal diversions of strategic goods to unauthorized end users or illicit deliveries to Bloc countries of controlled commodities.

CIA routinely solicits information from a number of sources on the diversion of embargoed high technology items in support of US officials concerned with trade controls. The diversions of interest include: illegal shipments from the US to Communist countries, whether directly or through third countries; legal shipments to Communist countries that are subsequently diverted (physically) from an authorized end-user facility to one that was not authorized; on-site diversion from an authorized end-use of equipment legally acquired. Generally, information on diversion is hard to come by because of the strict secrecy prevailing in Communist countries and the extreme reluctance to admit foreigners to their research and production facilities.

When exceptions are requested for the export of communications and recording equipment or related technology, CIA participation is more active than its usual advisory role. In these cases the Agency's concern is to identify exports that could seriously hinder foreign intelligence collection by the US or enhance Bloc intelligence capabilities.

The Consumers

CIA provides intelligence support on East-West trade policy issues through several channels:

(a) Oral and written briefings are provided upon request to high level government officials before their trips to the USSR. Briefing books are frequently prepared, for example, when cabinet-level and other senior officials travel abroad.

(b) Support is provided to some of the working groups established to carry out bilateral scientific and technical exchanges. Our briefings describe the level of progress in certain industrial sectors as well as in agricultural and science policy.

(c) The Agency also provides short oral or written answers to specific questions. Most of this kind of support in the past few years has been forwarded to the Council on International Economic Policy, the National Security Council, or officials (usually at the Deputy Assistant Secretary level) in Commerce, State, Treasury, and Agriculture.

(d) The Agency participates in interagency studies on East-West trade subjects. Usually, our submissions deal with the balance of payments position of Bloc countries, trade prospects, Western exports of high technology, and proposed joint ventures. In most of these studies we are represented on the drafting committees and participate in the discussions leading to the published paper.

(e) We also publish intelligence memorandums and reports on numerous topics bearing on East-West trade. These papers, which reflect most of the research material that may have been prepared for special briefings or for individual customers, are sent to the people in government who we think have a professional interest in East-West trade topics. But they are also given a special distribution to officials at the under secretary, deputy assistant secretary, or office chief level if they have a direct concern with East-West trade policy.

The offices in this special dissemination list include the Council on Economic Policy, the Council on International Economic Policy, the National Security Council staff, the President's Special Representative for Trade Negotiations, the Export-Import Bank, and the Office of Management and Budgeting. On occasion, these papers have also been sent to senior members of the National Security Council Staff.

CIA economic reports are also disseminated to State (the Bureau of Economic and Business Affairs, the Bureau of Intelligence and Research, the Bureau of European Affairs, and--for papers on technology transfer--the Bureau of International Scientific and Technological Affairs); Treasury (the Special Assistant to the Secretary for National Security and the Office of the Assistant Secretary for International Affairs); Commerce (Bureau of East-West Trade and Bureau of International Commerce); Agriculture (Assistant Secretary for International Affairs and Commodity Programs and many of the research and reporting divisions); and Defense (Office of International Security Affairs).

The briefings and published reports transmit CIA's analysis of East-West trade issues to specialists or to high-level officials on the eve of conferences concerned with East-West trade issues. Other highly placed government officials receive short summaries of developments in Bloc trade and commercial negotiations in CIA's Economic Intelligence weekly and daily intelligence publications.

Finally, some of the most comprehensive CIA analysis of East-West trade issues has appeared in successive publications of the Joint Economic Committee of Congress. Agency analysts contributed four trade-related articles to People's Republic of China: An Economic Assessment (1972) and seven such articles to Soviet Economic Prospects for the Seventies (1973). This summer the Joint Economic Committee is publishing Reorientation and Commercial Relations of the Economies of Eastern Europe. All of the four CIA articles in this volume treat East-West trade questions to greater or lesser extent. In addition, we have briefed a number of Congressional and Congressional staff members on trade issues. Since 1971, these briefings have centered mainly on Bloc acquisitions of high technology items and the grain trade between the US and the USSR and China.

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MEMORANDUM FOR: Mr. John E. Milgate
Associate Director,
International Division
General Accounting Office

Attached is the unclassified characterization of CIA's role in providing economic intelligence to support policy makers. This is the statement I promised you in my memorandum of 23 July 1974.


Paul V. Walsh
Associate Deputy Director
for Intelligence

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Attachment

26 July 1974
(DATE)

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1 AUG 54 WHICH MAY BE USED.

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